Congresswoman Cathy McMorris Rodgers
Statement for the Record
Hearing: Strengthening Worker Retirement Security
February 24, 2009

Thank you Chairman Miller and Ranking Member McKeon for holding a hearing on such an important issue. I want to also thank our witnesses for being here today to share their perspectives of how the current economic crisis impacted on workers' retirement savings.

Right now, our economy faces challenges that many of us haven't seen before in our lifetime. The current downturn in our financial markets has brought considerable uncertainty, particularly for those workers nearing retirement. A recently released poll said they worry they will have to work longer because the value of their retirement savings has declined. Particularly for those workers whose savings were held in a risky portfolio and also for those who were not well-diversified, these are difficult times.

America also faces a crisis with our current defined benefit pension system. As Rodger Lowenstein points out in his recent book "*While America Aged,"* today we have approximately 38 million senior citizens. It is predicted that in a generation this number will almost double to 72 million and that by 2030 one in five Americans will be over 65. Over 60 million Americans have been promised pensions; however this number is shrinking. Another concern is that over one third of the workforce has no savings for retirement or pension at all. Still another concern is that in the private sector the available pension plans are underfunded cumulatively by 350 billion dollars. Many employers, like IBM, Sears and Verizon have frozen their pension plans to keep their obligations from growing further. Unfortunately, some did not act quickly enough and have been forced to declare bankruptcy while others, like the U.S. auto industry teeter on the brink with only enormous government subsidies keeping them alive.

The Pension Benefit Guarantee Corporation (PBGC) created by the ERISA law in 1974 is currently responsible for the pensions of 1.3 million people whose pension plans have failed. With 94 of these plans failing in 2006 alone, the PBGC is deeply in the red with a taxpayer bailout increasingly likely. Even worse the states and localities that have promised pensions to first responders, teachers, transit workers and others are hundreds of billions of dollars behind on their promises to state pension funds. This is money owed by the taxpayer, and under the state constitutions this debt is required to be paid. Pensions can never be defaulted upon and this growing obligation has all the markings of the next financial crisis since these pensions are the longest enduring promises that exist.

One General Motors retiree recently passed in 2006 at the age of 111. He had been collecting pension and retiree benefits for 48 years. When he started work in 1926, there was little thought given to what they would pay him 80 years later. Pensions have always been the way to over promise future obligations that would have little effect on the company or municipality today. I find it ironic that the federal government was one of the first entities to get out of the pension business in 1984 as part of a solution then to save the Social Security system.

At the same time, millions of Americans rely on investments in planning for retirement. Because of this, a downturn in our financial markets can have a real impact on workers' retirement security. An increasing number of workers rely on 401(k)-type savings plans and a smaller share of workers participate in defined-benefit plans. Today, 630,000 private-sector defined contribution plans cover 75 million active and retired workers. In addition, there are more than 10 million employees of tax-exempt and governmental workers who participate in other plans such as 403(b), 427 and the Thrift Savings Program (TSP).

The financial crisis has also had an impact on defined contribution assets and this is a great concern to workers and retirees. Assets have declined from $2.9 trillion on June 30, 2008 to $2.4 trillion on December 31, 2008. The average 401(k) balance decreased 27 percent in 2008. However, 401(k) balances are still up 140 percent since January 1, 2000. If historical trends continue, plan participants who remain in the system can expect their plan assets to rebound significantly over time. A vast majority of these participants have remained committed to their defined contribution plans.

Congress has made progress in this effort. For instance, we made sweeping reforms of defined contribution plans in the Pension Protection Act of 2006 including enhanced pension plan financial disclosure requirements to participants. However, much more remains to be done.

I had the opportunity to review the testimony from our witnesses and I am greatly concerned that may of them are advocating for a new federal retirement system in addition to Social Security modeled on the federal TSP that covers all federal workers. It is alarming to see calls for such a dramatic change due to losses incurred under our current system. A government retirement savings board that may or may not require all employees to contribute will lower choices for workers and create a huge new bureaucracy in Washington, D.C. courtesy of the American worker.

Employer-sponsored 401(k) plans play a vital role in the retirement security of tens of millions of Americans. Although the recent economic downturn represents an historic challenge, it should not be used as an excuse to tear down or radically overhaul the 401(k) retirement system. I believe Congress should approve legislation that gives plan sponsors (typically employers) greater incentives to offer pension plans that match individual's contributions, offer many options for investment and give the individuals greater incentives to participate, not create a one size fits all government program with limited investment options and mandatory contributions.

I look forward to hearing the thoughts and perspectives of our witnesses regarding our nation's defined contribution plans.